



## MINUTES

**Joint Meeting of  
Finance Committee and  
Project Oversight Committee**  
Mission Memorial Annex Conference Room  
550 South King Street, Honolulu, Hawaii  
Thursday, April 19, 2012, 8:00 A.M.

**PRESENT:**

Carrie Okinaga	David Tanoue
Ivan Lui-Kwan	Wayne Yoshioka
Robert "Bobby" Bunda	Keslie Hui
William "Buzz" Hong	Damien Kim
Don Horner	Glenn Okimoto

**ALSO IN ATTENDANCE:**  
(Sign-in Sheet and Staff)

Dan Grabauskas	Russell Honma
Toru Hamayasu	Bill Brennan
Frank Doyle	Cindy Matsushita
Joyce Oliveira	Andrea Tantoco
Gary Takeuchi	Jeanne Mariani-Belding
Karen Gast	Paul Migliorato
Lorenzo Garrido	Aukai Reynolds
Lance Wilhelm	Harvey Berliner

**I. Call to Order by Chair**

Finance Committee Chair Don Horner called the meeting to order at 8:06 am.

**II. Public Testimony**

Mr. Horner called for public testimony. No testimony was offered.

**III. Approval of Minutes**

Mr. Horner called for the approval of the minutes of the March 1, 2012 joint meeting of the Finance and Project Oversight Committees. There being no objections, the minutes were unanimously approved.

#### IV. Change Order Review

Deputy Project Director Frank Doyle presented a change order to the joint Committees for an increase in rail price related to the Maintenance and Storage Facility (MSF), which he stated included other costs, but was mainly comprised of rail, switches and trackwork. The change order was due to a 23-month delay, which resulted in the increase in material prices between the time of contract and the rail purchase time. A cost of \$15.9 million was determined by HART to be reasonable for the rail, shipping and other related costs. A copy of the change order documentation is attached hereto as Attachment A.

Mr. Doyle stated that the material is being purchased, stored and maintained by MSF contractor Kiewit/Kobayashi Joint Venture for the entire project until the time of use. He stated that this change order has not been resolved in total; HART and the contractor have come to an agreement in order to place the order for the rail. In determining the change order cost, various factors such as the price of the original bid, today's price as quoted by the steel mill, and an escalation rate proposed by the contractor of \$5 million were considered. He advised that since the price of steel may increase between the time an order is placed at the mill and the time the material is "rolled," Kiewit proposed to cover this potential increase for approximately \$5 million. HART studied the escalation rate for steel prices and determined that \$5 million was too high. He stated that HART had the choice to pay the escalation price requested by Kiewit, or the true price of materials at the time it is "rolled," and it elected to do the latter.

At Board member Robert "Bobby" Bunda's request, Mr. Doyle further explained that HART staff concluded that, due to the relatively flat escalation in steel prices which are not likely to increase significantly, \$5 million in escalation costs were deemed not reasonable. Thus, HART has elected to pay the actual increase in price when the steel is "rolled."

Board member Damien Kim asked whether the specifications contained a start date. Mr. Doyle advised that it did. Mr. Kim asked for the reason for the delay on the notice to proceed to Kiewit/Kobayashi. Mr. Doyle stated that HART had not received the authorization for Entry Into Final Design from the Federal Transit Administration ("FTA") until December 2010, at which time it was able to purchase long lead final materials. Mr. Kim asked whether the long delay was included in the specifications to account for the difference in price. Mr. Doyle explained that at the time of bid in 2010, HART laid out different possible start times.

Board member William "Buzz" Hong asked to see invoices related to the change order. Mr. Doyle stated that bid prices were examined and HART obtained steel mill quotes to verify correctness. Mr. Hong requested that the steel mill quotes be furnished to the joint committee.

Board member Glenn Okimoto asked whether it was possible to fix the price of steel at the time of the bid. Mr. Doyle stated that the contract did not include a provision

addressing prices in the event of a delay. Mr. Horner stated that the risk is passed on to City & County of Honolulu for certain materials such as concrete and steel.

Board member Ivan Lui-Kwan asked what was the cause of delay in obtaining FTA approval. Mr. Horner stated that the FTA did not act on the Environmental Impact Statement for five to six months. He said that the Board did everything in its power to expedite the process. Mr. Lui-Kwan said that it is important to understand the reason for the delay. Mr. Doyle assured him that in the future, a rationale will be provided for delay claims.

Board member David Tanoue joined the meeting at 8:19 am.

Mr. Hui asked when the contract was awarded. Mr. Doyle responded that the bids were taken in February 2010, but the additional award was made in June 2010. The notice to proceed was originally scheduled to be issued in April 2010, but was not given until January 2012. At Mr. Hui's request, Mr. Doyle clarified that in February 2010 when the bids were accepted, HART had anticipated being in final design within two months. Mr. Hui expressed his concern over the reasonableness of the schedule, and asked how HART could better manage that risk in the future. Mr. Doyle acknowledged Mr. Hui's concern, and stated that we would not likely experience this kind of delay again for the remainder of the project. Mr. Horner echoed Mr. Hui's sentiment that the public needs assurances that this kind of delay will not occur again. He stressed that we need to communicate in a transparent manner about what the delay was.

Mr. Hong asked if there were any concerns over future escalation, and whether the Department of Hawaiian Homelands ("DHHL") and Navy issues with the MSF site had been resolved. Mr. Hamayasu stated that DHHL is actively seeking to exchange land with the City, and that there are no culturally significant elements such as 'iwi in the property.

Mr. Hamayasu clarified that the delay is in ordering the material, and not in starting the contract. He stated that had HART waited to execute the contract, the contractor would have come in with a higher bid, the contractor would have bid a higher price anyway. Mr. Hui stated that although that may be the case, the contract price sets the expectation.

Mr. Horner stated that going forward, the public needs to understand that we are at risk for material costs in this contract. He advised that it would be useful to know how much in contingencies are allocated to this job for this purpose.

Lance Wilhelm of Kiewit Building Group ("Kiewit") stated that the price for steel was based on quotes Kiewit received on issuance of purchase orders, but that the purchase orders had expired. He also pointed out that it is possible that the price of steel will go down in the future. Mr. Horner asked whether HART and Kiewit have quantified the steel escalation costs, and Mr. Wilhelm confirmed they had. However, Mr. Wilhelm stated that the parties have yet to agree on markup and business expenses.

Mr. Horner asked whether the price of concrete had been locked in for the MSF, and for the first ten miles of track. Assistant Project Officer Lorenzo Garrido stated that the proposal includes concrete ties and crossing panels in the MSF, but not the concrete for the guideway. Mr. Horner expressed a desire to know what HART's exposure is for the guideway concrete. Mr. Doyle stated that the contractor has not yet presented a change order. Mr. Horner requested that staff monitor concrete costs to reduce the risk of substantial change orders. Mr. Wilhelm stated that there have been increases in the quoted concrete price, which Kiewit can capture, as it is incorporated into larger cost escalations. Mr. Horner said that at some point those costs must be solidified so the financial plan could be submitted to the FTA.

Mr. Hui requested that HART staff prepare a report on where such risks lie.

Mr. Horner stated that, in defense of the process, the key is the soundness of the Financial Plan. He stated that the bidding occurred when commodity prices were low due to the recession, but have since gone up. However, the risk was offset by a large contingency. He agreed with Mr. Hui that it would be helpful to quantify the commodity exposure.

Mr. Grabauskas stated that, going forward, we will have real-time data when contracts go out for bid. He stated that there will be an analysis on whether there is greater savings in assuming the risk or locking in the price of commodities. He also echoed the point that HART should not go forward until all permits, approvals and funding are in place.

Mr. Horner explained that the Board should not do anything that is not within HART's financial capacity. Mr. Hamayasu agreed.

Mr. Horner moved to accept the change order, and Ms. Okinaga seconded. The motion carried unanimously.

#### V. Executive Session

Mr. Horner noted that there was no reason for the committee to enter into executive session.

Mr. Horner recognized Russell Honma, who testified regarding his experience with change orders, and his concern that HART control its costs.

HART Joint Meeting of the Finance and Project Oversight Committees  
April 19, 2012

VI. Adjournment

There being no further matters before the joint Committees, the Finance Committee Chair called for adjournment. All being in favor, the meeting adjourned at 8:56 am.

Respectfully Submitted,



Cindy Matsushita  
Board Administrator

Approved:



Damien Kim  
Project Oversight Committee Chair

JUN 7 2012

Date



Don Horner  
Finance Committee Chair

JUN 7 2012

Date

**MSF RFCC 4 – Rail Procurement Direct Costs**

**HART CHANGE CONTROL BOARD #21; Item 23  
CCB DETERMINATION**

Accepted:   X  

This request will be present to the HART Board of Directors.

Additional Information Required:

Date for Re-Review: \_\_\_\_\_

Denied: \_\_\_\_\_

Reason:

**COPY**

**ORIGINAL**

HART ED: \_\_\_\_\_

DEC: \_\_\_\_\_

CFM: \_\_\_\_\_

HART CPO: \_\_\_\_\_

DAC: \_\_\_\_\_

DATE: \_\_\_\_\_

# **RFCC-00004 – REVISED RAIL PROCUREMENT SUMMARY**

## **HART MSF CONTRACT**

### **CCB MEETING # 21**

**April 3, 2012 10am**

**Scope:** The purchase of rail products for the project (Guideway from East Kapolei Station to Ala Moana Station including MSF) is part of the MSF Contract. Due to the delay in issuance of NTP 1 there was a dramatic escalation in the cost of rail products. KKJV's cost proposal for this Request for Change is \$28,717,014. The proposal includes 20% markup, incurred price escalation, potential future price escalation and risk costs. The potential of future price escalation may be incurred between the time of an agreement and the time rail products are delivered due to manufacturer terms and conditions.

On March 23, 2012 HART presented an offer of \$15,910,959 to KKJV. The offer eliminated markup, the cost of potential future price escalation, and risk costs. The parties could not reach agreement about the inclusion of markup, future price increases, and risk costs. Negotiations were then suspended.

**Justification:** The delay in issuance of NTP 1 on July 25, 2011, thirteen (13) months after the conditional award on June 24, 2010, subjected HART and Kiewit/Kobayashi, a Joint Venture (KKJV) to dramatic escalations in the cost of rail products.

**Baseline:** RFP documents

**Cost:** \$15,910,959

**Schedule:** KKJV has not reached agreement with rail material vendors. Schedule impacts are potentially significant and could impact WOFH and KHG contracts.

**Other Contracts:** Project Wide

**Attachments:** Negotiations Strategy Memo, Summary of Negotiations

**Recommend:** CCB to approve issuance of a Unilateral Contract Change Order

4.6%

THE PERCENTAGE HIKE in new school construction from January of last year as tracked by the U.S. Commerce Dept.'s index.

Construction costs also are getting a nudge from the growing popularity of various types of negotiated contracts, which tend to cost more than design-bid-build, Wallers claims. "Cost increases are coming more from the procurement process than commodity prices," she says.

Leading the February price increases tracked by the producer price indexes were non-ferrous wire products, up 3.4% for the month but still down 3.1% from a year ago. Steel mill prices rose 0.6% last month and are up 4% from February 2011's level. Prices for fabricated structural materials increased 0.9% last month and are 3.6% higher than a year ago.

"The U.S. has some of the highest steel prices in the world right now, and that works as long as imports don't become an issue," says John Anton, steel analyst for the forecasting firm IHS Global Insight, Washington, D.C.

Anton predicts these high prices won't hold, noting that structural-steel prices already are starting to decline after spiking 14.2% during the first half of last year. Since then, structural-steel prices have fallen back 13.5%, to \$846 a tonne, in the first quarter of this year. Anton sees prices falling another 4.9%, to \$805 a tonne, by the fourth quarter of this year. Anton predicts a similar decline for reinforcing-bar prices, which he expects will decline another 8.6% during the next three quarters, ending the year at \$754 a tonne.

It also appears that a brief rally in cement prices will be short-lived. "Since 2008, when cement prices began their long decline, the input costs to producers has been increasing, but lack of demand prevented them from passing those added production costs along," says Robert Martin, construction materials analyst for IHS Global Insight. "It has not turned into a seller's market, but producers were able to push through a 4% price increase last November, according to the producer price index," Martin says. That uptick was followed by price increases of 1.2% in December and 2.6% in January. However, in February, prices fell back 3.5%, Martin says. ■

## BUILDERS' CONSTRUCTION COST INDEXES

NAME, AREA AND TYPE	JAN. 2011	APRIL 2011	JULY 2011	OCT. 2011	JAN. 2012	ORT.	YEAR
GENERAL-PURPOSE COST INDEXES:							
ENR 20-CITY: CONSTRUCTION COST <sup>1</sup>	832.12	840.40	845.32	851.54	854.24	+0.3	+2.7
ENR 20-CITY: BUILDING COST <sup>1</sup>	735.44	744.17	751.04	755.55	757.83	+0.3	+3.0
BUREC: GENERAL BUILDINGS <sup>2</sup>	318.00	321.00	324.00	326.00	NA	+0.6	+2.8
FM GLOBAL: INDUSTRIAL <sup>3</sup>	279.00	NA	284.00	NA	286.00	+0.4	+2.5
SIERRA WEST: MATERIALS/LABOR <sup>3</sup>	837.75	840.77	849.21	868.65	870.01p	+0.1	+3.9
MEANS: CONSTRUCTION COST <sup>4</sup>	185.70	188.10	191.20	192.70	194.00	+0.7	+4.5
EGG, EDWARTOSKI COST CONSULTING <sup>5</sup>	164.41	164.91	166.41	167.13	167.70	+0.3	+2.0
SELLING PRICES INDEXES—BUILDING:							
SIERRA WEST: SUBCONTRACTOR <sup>1</sup>	891.01	915.59	922.16	927.38	927.42p	0.0	+6.6
TURNER: GENERAL BUILDING <sup>1</sup>	806.00	811.00	814.00	818.00	821.00	+0.4	+1.9
RIDER LEVETT BUCKNALL <sup>6</sup>	142.77	143.42	144.53	145.29	145.73	+0.3	+2.1
SPECIAL-PURPOSE BUILDING COST INDEXES:							
U.S. COMMERCE: ONE-FAMILY HOUSE <sup>7</sup>	97.00	97.50	98.90	97.80	96.20	-1.6	-0.8
U.S. COMMERCE: NEW WAREHOUSES <sup>7</sup>	124.40	125.40	126.90	128.90	129.60	+0.5	+4.2
U.S. COMMERCE: NEW SCHOOL BUILDINGS <sup>7</sup>	132.80	134.00	135.50	137.70	138.90	+0.9	+4.6
U.S. COMMERCE: NEW OFFICE BUILDINGS <sup>7</sup>	112.90	114.10	115.20	116.30	117.40	+1.0	+4.0
POWER ADVOCATE: POWERPLANT <sup>8</sup>	176.80	178.50	180.42	181.93	182.23	+0.2	+3.1

<sup>1</sup>BASE: 1987=100; <sup>2</sup>BASE: 1977=100; <sup>3</sup>BASE: 1989=100; <sup>4</sup>BASE: 1989=100; <sup>5</sup>FORMERLY SMITH GROUP, 1982=100; <sup>6</sup>BASE: APRIL 2005=100; <sup>7</sup>BASE: 1982=100; <sup>8</sup>POWERPLANT FOR A 650-MW COMBINED-CYCLE FACILITY. P = DECEMBER DATA FOR SIERRA WEST.

## CONSTRUCTION MATERIALS PRICE MOVEMENT IN 2011-2012

		AUG.	SEP.	OCT.	NOV.	DEC.	JAN.	FEB.
AGGREGATES	MONTHLY % CHG.	-0.2	0.0	-0.3	0.0	+0.1	+0.7	+0.6
	ANNUAL % CHG.	+0.9	+1.5	+1.3	+1.4	+1.2	+1.2	+2.2
ALUMINUM SHEET	MONTHLY % CHG.	-0.1	-1.6	-1.6	-3.1	-1.6	-1.3	+1.6
	ANNUAL % CHG.	+13.7	+10.4	+6.5	+0.7	-0.6	-3.0	-1.9
ASPHALT PAVING	MONTHLY % CHG.	-0.2	+0.1	-0.4	-0.5	+0.4	+1.5	+2.3
	ANNUAL % CHG.	+8.1	+8.6	+8.5	+8.0	+8.4	+9.9	+11.2
CEMENT	MONTHLY % CHG.	-0.4	+0.8	-4.5	+4.0	+1.2	+2.6	-3.5
	ANNUAL % CHG.	-1.9	-0.8	-4.8	-0.3	+1.2	+5.1	+1.6
COPPER PIPE	MONTHLY % CHG.	-2.8	-1.0	-11.3	+2.2	-0.4	-2.8	+6.2
	ANNUAL % CHG.	+20.9	+14.5	-3.7	-8.9	-8.5	-14.1	-12.2
DIESEL FUEL	MONTHLY % CHG.	-6.3	+3.4	-2.3	+8.8	-7.8	+3.2	+3.0
	ANNUAL % CHG.	+32.9	+39.5	+27.4	+32.4	+20.2	+19.1	+14.5
DUCTILE IRON PIPE	MONTHLY % CHG.	+0.5	+0.4	+1.0	-0.8	-0.7	+2.0	+0.9
	ANNUAL % CHG.	+7.1	+6.6	+6.2	+6.8	+5.4	+5.8	+5.0
FABRICATED STEEL	MONTHLY % CHG.	-0.3	+0.1	+0.3	0.0	+0.3	-1.0	+1.9
	ANNUAL % CHG.	+5.1	+5.3	+5.7	+5.7	+4.8	+2.5	+2.8
GYPSUM PRODUCTS	MONTHLY % CHG.	-0.6	-2.3	+2.7	-0.1	+0.9	+4.4	+4.5
	ANNUAL % CHG.	-4.1	-4.1	-1.6	-0.3	-1.1	+5.9	+13.4
LUMBER, SOFTWOOD	MONTHLY % CHG.	+1.8	-1.7	+0.1	-1.5	+1.2	-0.3	+2.1
	ANNUAL % CHG.	+5.1	+3.7	+4.9	+1.7	-0.4	-3.2	-1.3
PLYWOOD	MONTHLY % CHG.	+0.4	+1.7	+2.7	-0.2	-1.1	+1.2	+4.6
	ANNUAL % CHG.	-6.4	-3.2	+0.8	+2.2	+0.2	-0.6	+3.0
PVC PRODUCTS	MONTHLY % CHG.	0.0	+0.2	-0.2	-1.2	-0.1	+0.2	+2.3
	ANNUAL % CHG.	+6.2	+6.4	+5.6	+3.9	+3.6	+3.6	+5.4
READY-MIX CONCRETE	MONTHLY % CHG.	-0.2	+0.2	0.0	+0.7	+0.4	+0.7	-0.3
	ANNUAL % CHG.	-0.4	-0.1	-0.2	+0.2	+0.6	+1.3	+1.5
SHEET METAL	MONTHLY % CHG.	+0.2	+0.3	-1.1	+1.1	-0.1	-1.5	-0.1
	ANNUAL % CHG.	+4.8	+6.1	+4.5	+5.3	+5.1	+4.1	+3.3

SOURCE: BUREAU OF LABOR STATISTICS



By Tim Grogan

# Inflation Starts To Wake Up

A hint of recovery is enough to nudge upward long-dormant cost pressures

The full recovery of the construction markets still appears to be a year off. However, to mix a metaphor, if the industry has not turned a corner, perhaps it has at least hit bottom. That news is all some desperate construction materials producers needed to try to push commodity prices higher. For the second consecutive month, prices for construction materials increased, rising 0.9% in February after an increase of 0.4% in January, according to the Bureau of Labor Statistics' March 15 producer price index report. Materials prices are up 4.4% compared to February 2011. Similarly, non-residential construction materials prices rose 0.8% last month and are up 4.6% for the year.

"Recent performance in the broader economy, along with rebounding financial markets, suggests that a genuine, potentially sustained construction recovery is approaching," says Anirban Basu, chief economist for the Associated Builders and Contractors, Arlington, Va.

The construction industry's major cost indexes are starting to reflect this uptick in inflation. This quarter, seven general-purpose cost indexes, which measure labor and materials input costs, averaged year-to-year gains of 3.1%. This increase is up from 2.7% in the first quarter of last year.

Perhaps more significant is the bump in escalation measured by the selling price indexes of Turner Construction Co., New York City, and consultant Rider Levett Bucknall, Phoenix. The numbers indicate that contractor margins are starting to improve slightly. This quarter, the Turner building cost index was up 1.9% for the year, while the RLB selling price index posted a 2.1% annual increase. In the first quarter of last year, both indexes averaged annual increases of just 0.8%.

The largest increase in inflation was measured by three U.S. Commerce Dept.

special-purpose indexes, which measure construction costs for warehouses, schools and office buildings. This group of indexes averaged annual increases of 4.3% this quarter. A year ago, they averaged annual increases of just 0.8%.

Labor costs also are starting to push construction costs up, according to Julian Anderson, president of RLB. "I think the industry has shrunk to a very low level, and even with a slight uptick in activity generals and subs are finding it very difficult to find qualified people for the job," he says. "Initially, most of the cost pressure will be seen on the labor side as things start to pick up. We should be seeing more of that by the end of the year."

Breaking out cost indexes for 11 U.S. cities, RLB data show annual escalation ranging from a low of 1.1% in Seattle and Washington, D.C., to 2.5% in New York

City. The major exception is Honolulu, which reported a 5.3% jump in construction costs from January 2011's level. "Construction costs in Hawaii are largely driven by a new tax code that adds about 4.7% at every stage of the construction process," says Anderson.

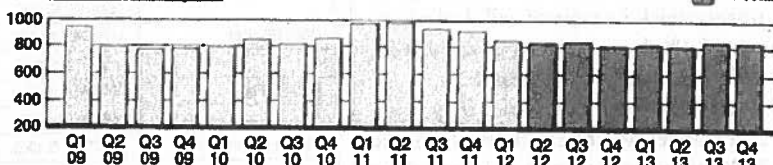
"Unemployment is dropping in California, which means markets are coming back," says Mary Wallers, president of Sierra West, Sacramento, Calif. "We are seeing some pressure on costs, but I am just so glad to see some kind of positive signs happening."

The Sierra West materials and labor cost index posted an annual increase of 3.9% this quarter, up from 1.4% a year ago. However, the biggest swing was in the firm's subcontractor index, which in December was up 6.6% for the year. In 2010, the subcontractor index declined by 4.3%.

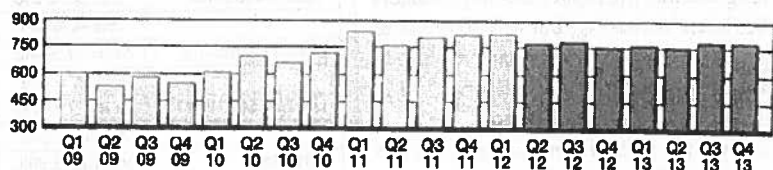
## Steel Prices Level Out

All prices in \$/metric ton

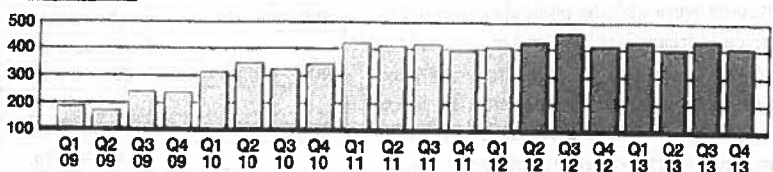
### Structurals Shapes



### Reinforcing Bar



### Scrap Metal



SOURCE: BUREAU OF LABOR STATISTICS. FORECAST BY ENR GLOBAL INSIGHT

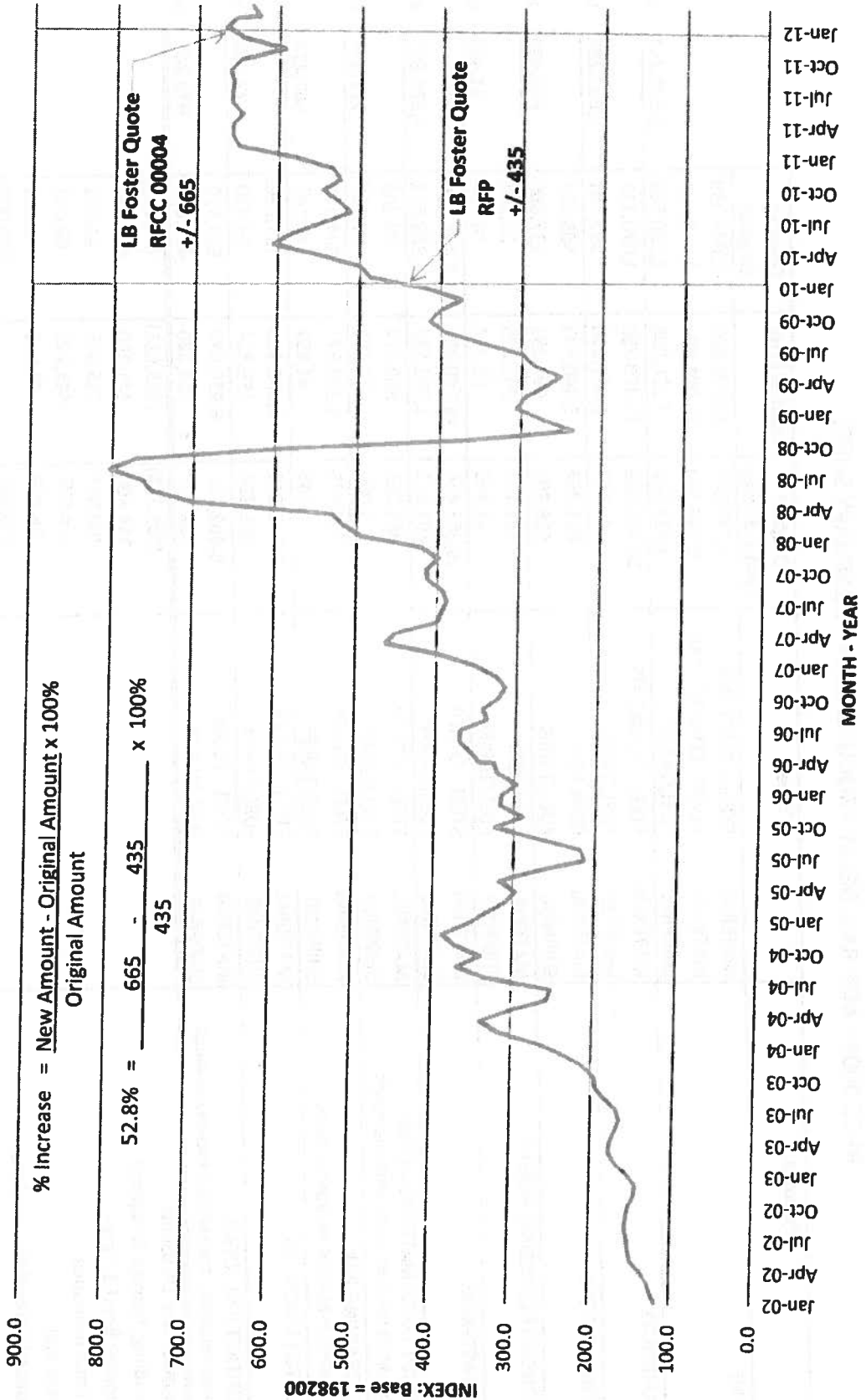
# U.S. Bureau of Labor and Statistics

Producer Price Index - Commodities

Group: Metals and Metals Products

Iron and Steel Scrap - Series Id: WPU1012

Not Seasonally Adjusted



Attachment 1

RFCC 0004 - MSF RAIL DELAY PROCUREMENT - SUMMARY SHEET

Package	Type	Original Contract Price	Quoted Price	Delta to Original
RAIL	MATERIAL STEEL - TRACK RAIL	9,045,264	11,091,603	2,046,339
	MATERIAL ALUM - CONTACT RAIL	9,045,264	11,091,603	2,046,339
	SHIPPING FUEL/TARIFF	3,937,532	5,228,095	1,290,563
TURNOUTS	MATERIAL STEEL - TURNOUTS	10,409,639	11,479,750	1,070,111
	SHIPPING FUEL/TARIFF	902,357	1,497,538	595,181
CONCRETE TIES	MATERIAL CONCRETE	831,754	1,340,393	508,639
	SHIPPING FUEL/TARIFF	558,391	696,251	137,860
CONCRETE CROSSING PANELS	MATERIAL CONCRETE	181,717	205,298	23,581
	SHIPPING FUEL/TARIFF	47,440	58,264	10,824
DF FASTENERS	MATERIAL STEEL - OTHER	15,208,416	18,700,832	3,492,416
	SHIPPING FUEL/TARIFF	607,571	1,991,112	1,383,541
OTHER TRACK MATERIALS (OTM)	MATERIAL STEEL - OTHER	483,263	562,472	79,209
NUTS, BOLTS SHIMS, WELD KITS, INSULATED JOINTS	SHIPPING FUEL/TARIFF	5,000	37,165	32,165
RETRAINING RAIL	MATERIAL STEEL - OTHER	758,643	1,262,971	504,328
IN SHARP CURVES, KEEPS TRAIN ON THE TRACK	SHIPPING FUEL/TARIFF	1,746	44,892	43,146
SWITCH MACHINES	MATERIAL STEEL - OTHER	2,313,149	2,282,113	(31,036)
	SHIPPING FUEL/TARIFF	105,894	159,324	53,430
CONTACT RAIL (OTM)	MATERIAL STEEL - ALUM	6,402,112	6,959,682	557,570
EXPANSION JOINTS, COVER BOARDS, ANCHOR ASSEMBLIES	SHIPPING FUEL/TARIFF	352,141	764,820	412,679
Supplier Qty. Discounts		(801,226)	(865,633)	(64,407)
Handling, Storage & Support		144,800	321,360	176,560
Supplier Bond & Taxes		468,894	565,845	96,951
Marine Insurance		374,673	443,725	69,052
Wash Rail		76,459	82,582	6,123
Indexed Commodity Escalation		100,000	-	(100,000)
Contractor Prep. Fee / Bond / Taxes		-	1,469,795	1,469,795
TOTALS		61,560,893	77,471,852	15,910,959
				25.8%

Attachment 1.

Contract and provides KKJV a means to be paid for materials delivered to the Project.

**Baseline Documents:** None

**Cost:** \$15,910,959.00

**Schedule:** See attached schedule overlay

**Other Contracts:** West Oahu Farrington Highway Guideway (WOFH) and Kamehameha Highway Guideway (KHG) and Core Systems Contract (CSC) may be impacted.

**Attachments:**

- 1: KKJV Breakdown
- 2: US Bureau of Labor and Statistics Price Index
- 3: Engineering News Record
- 4: CCB Summary

**Recommendation:** Authorize issuance of a Change Order to the MSF Contract

**RFCC-0004 – DELAY OF RAIL PROCUREMENT**  
**HART MSF CONTRACT #1000449**  
**HART BOARD OF DIRECTORS**  
**April 19, 2012**

**Scope:**

Kiewit Kobayashi Joint Venture (KKJV) proposed on the Maintenance and Storage Facility Contract on February 10, 2010, with an anticipated start date of April 19, 2010. On January 10, 2012, KKJV was authorized to begin Final Design, which included the procurement of 'long lead items' such as the rail. The duration between the original start and actual is 23 months.

With the exception of the Switch Machines, which will be purchased by the Core Systems Contractor (Ansaldo Honolulu Joint Venture), the products to be purchased have not changed. The price escalation of material, shipping and related cost as quoted by KKJV is provided in Attachment 1. The price index increase graph for the 23 month period is provided in Attachment 2.

In addition, KKJV's proposal included an additional amount in excess of \$8 Million for a potential price increase from the time the order is placed to the time the product is actually produced. The HART Contract Team determined that accepting KKJV's proposed risk value was not acceptable as the market has indicated that it may remain stable over the next 6 to 9 months. Attachment 3 is a 2 page cut from the current Engineering News Record (ENR) forecasting scrap steel prices to remain steady over the next year. If there is an increase in scrap steel prices, HART would renegotiate those actual costs with the Contractor.

Finally, HART has not come to agreement with KKJV for their allowed Overhead/Profit for this delay to their work. This value will be determined at a later date and will be presented once it is resolved. The HART Change Control Board (CCB) has reviewed the proposed delay impacts for these products and approved to issue a Change Order to KKJV, reference Attachment 4.

**Justification:**

The delay of authorizing the contractor to proceed with ordering the rail components has resulted in the increase of raw steel rates. These rates are the basis for the subcontractor's price from the original bid to the current cost of the same products. In reviewing Attachment 1, the Original Costs detailed by type of material / product purchased and the associated shipping costs show the direct impact of the scrap steel costs as well as the increase in fuel prices drive this increase.

The HART Contact Team requests accepting this partial settlement of Claim from KKJV to ensure timely procurement of materials for all Guideway Contracts as well as the rail necessary for the Maintenance and Storage Facility. Since we have not reached a full settlement with KKJV, the Change Order when issued will acknowledge the actual cost increases and includes that value within their